Corporate Boards with High Levels of Diversity

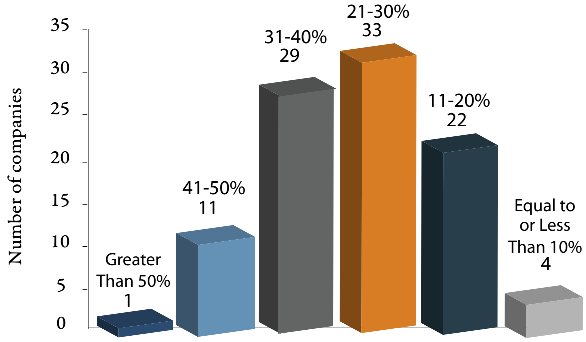
The following chart shows Fortune 100 companies which show the highest levels of diverse representation on their corporate boards. High diverse representation boards have 40 percent or greater diverse board seats or have representation across all minority groups, including African-Americans, Asian, Hispanics, and women. A diverse board seat is one that is occupied by a woman or minority board member or both.

FIGURE H: Companies with high diverse representation boards

Company	Total Seats	Diverse Seats	Diverse Seats as a % of Total Seats
Alcoa	10	5	50.00%
PepsiCo	15	7	46.67%
Aetna	13	6	46.15%
Dow Chemical	13	6	46.15%
IBM	13	6	46.15%
CitiGroup	16	7	43.75%
WellPoint	16	7	43.75%
Wal-Mart	14	6	42.86%
Wells Fargo	14	6	42.86%
Target	12	5	41.67%
Walt Disney Co.	12	5	41.67%
General Electric	15	6	40.00%
DuPont	11	4	36.36%
The Hartford	11	4	36.36%
Deere & Co.	12	4	33.33%
Mass Mutual	13	4	30.77%
Honeywell	14	4	28.57%

Source: Women and Minorities on Fortune 100 Boards," The Alliance for Board Diversity, 2008 and Virtcom Consulting analytics

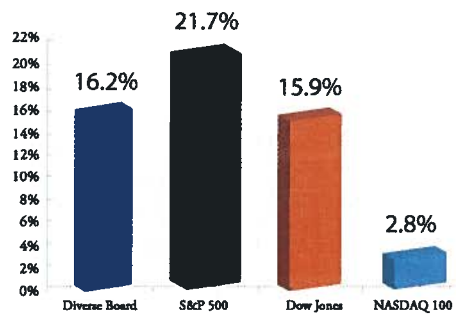
FIGURE I: Percentage Distribution of Board Diversity Among the Fortune 100



Source: "Women and Minorities on Fortune 100 Boards," The Alliance for Board Diversity, 2008

The stocks of the companies with high diverse representation boards gained 16.2% over five years from July 2003 to July 2008. In comparison, the Standard and Poors 500 gained 21.7%, the Dow Jones Industrial Average gained 15.9% and the NASDAQ 100 gained only 2.8%.

FIGURE J: Diverse Board Companies Performance Compared to DJIA and NASDAQ 100



Source: Virtcom Consulting analytics

Beyond Race and Gender: Board Skills Diversity Representation

Virtcom Consulting believes that boardroom diversity reaches beyond ethnic minorities and women, and into the diverse range of board members' skills. The chart below displays six board skills, which are from the CalPERS Global Principles of Accountable Corporate Governance. These six categories are used to analyze the strength of each company board's skills sets. Each score, based on a scale from 1 to 5, is a representation of what percentage of board members possess the particular skill (1 = 0 to 20%; 2 =21 to 40%; 3 = 41 to 60%; 4 = 61 to 80%; 5 = 81 to 100%). For example, at The Walt Disney Company, 81 to 100% of the board members have executive management experience, whereas only 21 to 40% have international experience. Board skills data was unavailable for Target and WellPoint.

FIGURE K: Board Skills Representation:
Snapshot of 15 Fortune 100 Companies with High Levels of Diverse Representation
Scale: 1 to 5; 5= Strong Skill, 3= Moderate Skill, 1= Weak Skill

Company	Executive Management Experience	Accounting & Finance Knowledge	International Experience	Co. Specific Industry Knowledge	Customer Experience	Legal Knowledge
Aetna	5	1	1	2	1	1
Alcoa	5	1	2	2	1	1
CitiGroup	5	1	3	2	1	1
Deere & Co	5	1	2	2	2	1
Dow Chemical	5	1	3	5	1	1
DuPont	5	1	3	5	1	1
General Electric	5	1	2	2	1	1
The Hartford	5	1	1	3	1	1
Honeywell	5	1	2	2	1	1
IBM	5	2	3	2	1	1
Mass Mutual	5	1	1	3	2	1
PepsiCo	5	2	2	2	2	1
Wal-Mart	5	1	2	3	1	1
The Walt Disney Co.	5	1	2	2	1	1
Wells Fargo	5	1	3	3	1	2

Source: Virtcom Consulting analytics

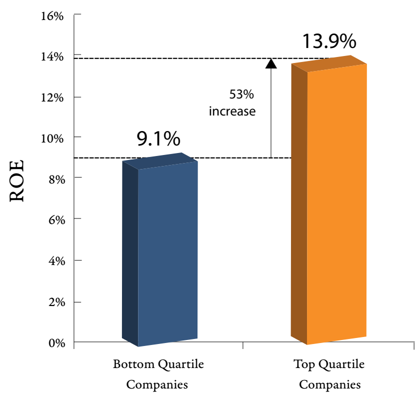
II. Board Diversification and Shareowner Value

Impact of Gender Board Diversification on the Bottom-Line

There are a broad range of best practices that can help to diversify boards related to visible board diversification. The activities have been consolidated into three major best practices areas: diverse member identification, candidate slate development and effective board member utilization. These approaches will serve as an effective board diversification strategy framework.

According to research conducted by Catalyst, Fortune 500 companies with higher representation of women on their corporate boards outperformed on three key financial measures compared to companies with lower representation of women on their boards. The research ranked Fortune 500 companies according to the percentage of women on their corporate boards and then grouped them into quartiles. The bottom and top quartiles were then evaluated over four years according to Return on Equity (ROE), Return on Sales (ROS) and Return on Invested Capital (ROIC).

FIGURE L : Return on Equity by Women's Representation on the Corporate Board

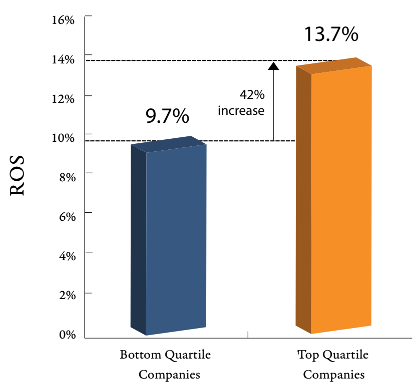


Return on Equity (ROE) is defined as the ratio of after-tax net profit to shareowners' equity.

Companies that were in the top in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 53% in terms of Return on Equity.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

FIGURE M: Return on Sales by Women's Representation on the Corporate Board

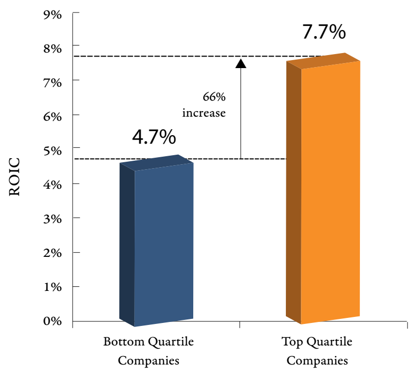


Return on Sales (ROS) is defined as the pre-tax net profit divided by revenue.

Companies that were in the top quartile in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 42% in terms of Return on Sales.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

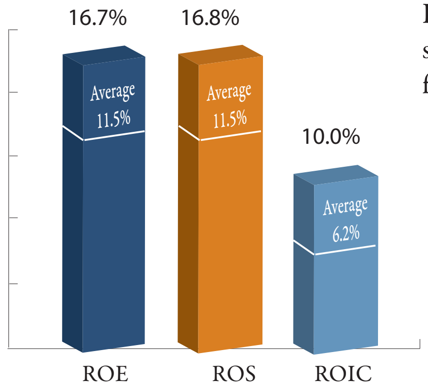
FIGURE N: Return on Invested Capital by Women's Representation on the Corporate Board



Companies that were in the top quartile in terms of percentage of women on their corporate boards outperformed companies in the bottom quartile by 66% in terms of Return on Invested Capital.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

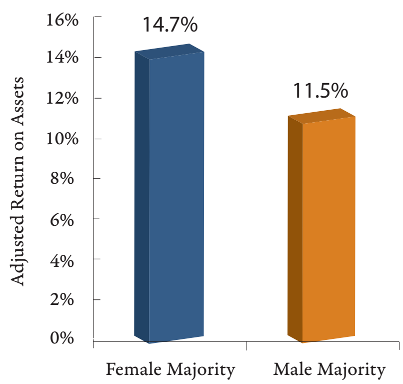
FIGURE O: Financial Performance at Companies with Three or More Women Board Directors



In Fortune 500 companies where at least three women serve, stronger than average results were found on all three financial measures.

Source: "The Bottom Line: Corporate Performance and Women's Representation on Boards," Catalyst, 2007

FIGURE P: Finnish Companies with a Female Board Majority Are More Profitable

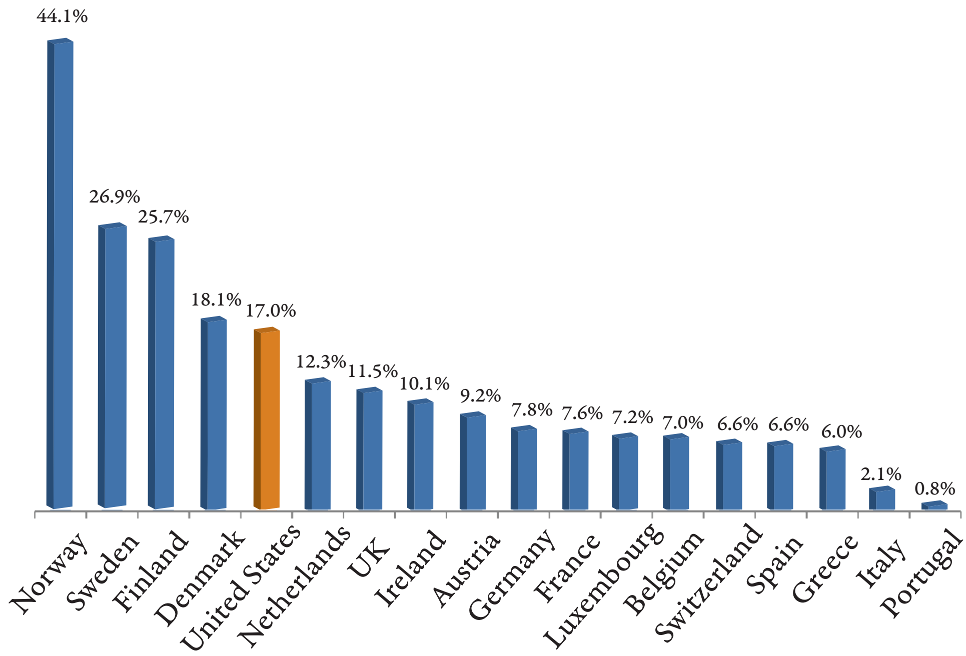


A study conducted on companies in Finland showed similar results. The Finnish Business and Policy Forum examined limited liability companies that operated in Finland in 2003 and employed at least 10 people. Those companies which had a female majority on their corporate boards showed an Adjusted Return on Assets of 14.7%, while those companies with a male majority had an adjusted ROA of only 11.5%. Finland enacted a gender quota law in 2004, which requires boards to have 33 to 50% of members of both sexes.

Source: "Female Leadership and Firm Profitability," Finnish Business and Policy Forum EVA, 2007

Given that in the US, women hold 17% of corporate board positions at Fortune 100 companies, how does this compare to female corporate board representation in other countries? As the chart below illustrates, the United States leads most European countries quite handily – but not all.

FIGURE Q: Countries by Percentage of Board Seats Held by Women



Source: "Women on Boards in Europe," Catalyst, 2008

The Scandanavian nations of Denmark, Finland, Sweden and especially Norway have demonstrated remarkable success in boosting female representation on corporate boards in their companies. While some of this progress may be attributed to the more progressive attitudes toward gender equality that modern Scandinavian cultures are reputed to have and to the more active role of their governments in labor policy, US companies may still benefit from an examination of the best practices and policies that their companies have adopted.

Beyond using board diversity as a way of driving shareowner value, there are complementary business models that drive return on investment. The next two sections will lay out how diversity return on investment came about, models of implementation, and case studies to back them up.

III. Making the Case for Diversity as a Business Strategy

Phase 1: The Business Case for Diversity

In 1989, Lewis Platt, the CEO of Hewlett Packard spoke of a new and innovative concept: the business case for diversity, a corporate diversity initiative that positively impacts employees, suppliers, customers, communities and the bottom-line. This revolutionary moment was the first step toward moving diversity from a moral, ethical and legal corporate responsibility to a potential source of business value.

Phase 2: The Marketing of the Business Case

Since the emergence of the business case for diversity, diversity initiatives have grown in corporate America. According to Goldman Sachs Urban Investment Fund, the Fortune 500 invest nearly $2B yearly in corporate diversity programs, ranging from diversity training to the recruitment of diverse candidates. In addition, a number of promising theories such as the concept of Diversity ROI and Diversity Shareowner Value have offered glimmers of hope to prove that corporate diversity efforts can actually impact the bottom-line. For nearly two decades, the marketing of the business case has ensured that diversity initiatives thrive in corporate America- with Fortune 500 CFOs unaware of how much value has been linked to the $2B yearly investment.

Phase 3: The Existence of Diversity ROI

In September 2004, the Harvard Business Review (HBR) published a seminal case study called "Diversity as Strategy." In it, a new concept was proven, Diversity ROI, as the CEO of IBM, Louis V. Gerstner, publicly declared that a diversity initiative lead by his Chief Diversity Officer in partnership with one of his business units had a clear impact on the bottom-line. Gerstner partnered his women and ethnic minority Employee Networking Groups (employee support groups for IBM employees of similar backgrounds or interests) with his Market Development unit to penetrate a market of 13,000 Women and Ethnic Minority owned businesses with at least $20M in Revenues to purchase IBM products. The effort launched in 1998 when the business unit generated approximately $10m yearly. By 2003, the business unit generated over $300M in business. In the HBR Case Study, Gerstner implicitly credits the incremental growth in sales to his diversity initiative and business unit partnership.[2]

Given the Stature of the "Two Lou's," and the proof of the existence of Diversity ROI, a natural consequence would be that a number of Fortune CEOs of major publicly traded companies would establish a diversity initiative, partner that initiative with a business unit or units, and watch the money flow. But that hasn't happened. Instead, diversity initiatives continue in the eyes of the Fortune 500 CFOs and CEOs to be cost centers and offer no financial testimony to suggest otherwise.

1 Goldman Sachs Urban Investment Group press release, May 17, 2006
2 "Diversity as Strategy," Harvard Business Review, September 2004